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Ecuador

COFFEE ANNUAL

2009 Ecuador Coffee Annual Report

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Report Highlights:

Ecuador's coffee production is forecast to decrease in MY 2010. Exports are to remain constant, and bean imports are expected to grow slightly. Ecuador is forecast to import 420,000 bags of Robusta beans in MY 2010.

Executive Summary:

Coffee production for Marketing Year 2010 (April/March) will decrease to 624,000 60-Kg. bags (Bags). This decrease is a continuation of a trend started in 2002 when the national planted area of coffee in Ecuador started to decrease.

Ecuador's local consumption grows in accordance to population growth and is forecast at 177,000 Bags in MY2010, 95 percent of which is consumed as soluble or instant coffee. Coffee exports for MY 2010 are forecast at 868,000 Bags, 79 percent of which are soluble and instant coffee products. In order to meet the industry's demand of Robusta coffee beans, in CY 2008, Ecuador imported 310,000 Bags of Robusta beans, most of which enter Ecuador under a regime

for industrialization and re-export. In order to meet demand, imports of beans should grow to 420,000 bags in MY 2010.

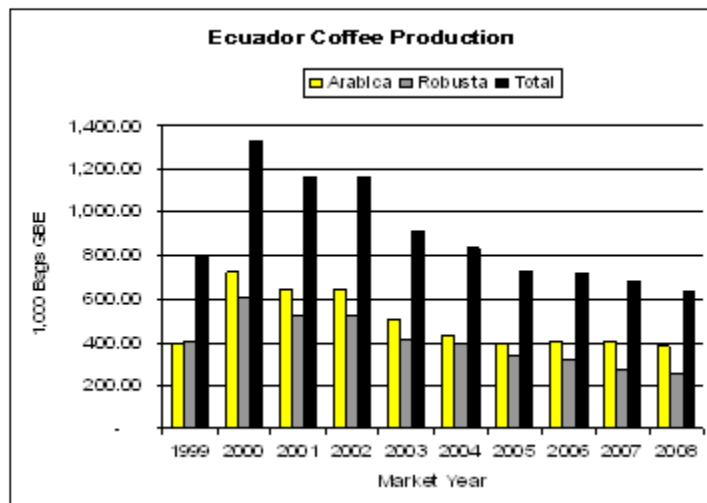
Commodities:

Coffee, Green

Production:

For MY 2010, coffee production will decrease slightly to 624,000 60-kg Bags (Green Bean Equivalent GBE) on 174,000 harvested hectares. Since 2002, there has been an average annual decrease in planted areas of 4.8%. Low yields, due to a lack of technology and old plantations have encouraged farmers to switch to more profitable crops. An estimated 80% of existing plantations are past peak production and need to be replanted with new varieties. Volatile international prices have also created additional disincentives for investments in new trees. The Government of Ecuador has started a tree re-planting program with an annual target of 3,000 hectares. Production methods are traditional with most bean picking done by hand and no applications of fertilizers.

Currently, Ecuador has approximately 191,000 hectares of area planted while 168,000 hectares are being harvested. A large portion (53 percent) of this area is also shared with other crops. Arabica coffee represents 59 percent of the total production and will reach 371,000 Bags in MY 2010. Robusta production represents 41 percent and is forecasted at 253,000 Bags. There is a tendency for the area planted with Arabica to decline while the area planted with Robusta increases.



Prices for Arabica continued to increase during CY 2008 – by 31 percent compared to the year before – and averaged \$194.4 per Bag. **Note:** Data shown in Price Table corresponds to bags of 45.36Kg.

Consumption:

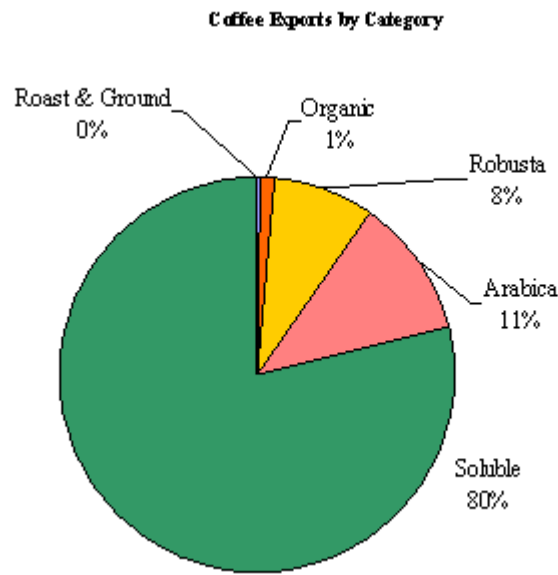
Domestic use of coffee is forecast at 177,000 Bags for the upcoming MY 2010. Ecuadorians consume much more soluble coffee than roasted and ground coffee. This consumption pattern is explained by changes in consumer habits over the past 25 years towards economy and ease of use. This has been accompanied by a lack of coffee drinking culture. There are only two major coffee chains operating in Ecuador, Sweet & Coffee which has been in Ecuador for about ten years and Juan Valdez which started operations in 2008. Thus, instant coffee has remained very popular in Ecuador and several national and imported brands are represented in the market. Two Ecuadorian companies, El Café (Grupo Noboa) y Solubles Instantáneos have nearly 90% of the market. Ecuador also imports in small amounts soluble (spray dry and freeze dry) coffee from Colombia, Brazil and other countries.

The domestic industry produces large quantities of spray dry and freeze dry coffee for domestic consumption and, more importantly, for export. The local industry has an installed processing capacity of 1.2 million Bags per year, and needs imports of coffee beans to meet their demand.

Trade:

Exports of coffee and products are forecast to remain stable at 868,000 Bags in MY 2010. Exports are driven by soluble and industrialized coffee and Robusta bean exports. Exports of organic coffee beans grow slowly and represent approximately 1 percent of total exports. These exports represent 7,811 Bags in 2008. These are targeted at high-income international niche markets and for tourists and specialty stores in Ecuador.

The prevalence of Robusta exports is an important issue for discussion. Despite lower world prices of Robusta in comparison to Arabica, 60 percent of Ecuador's 179,000 exported Bags correspond to Robusta. Robusta receives a higher price in the regional market where Robusta is used in a larger proportion to make soluble coffee. Thus, Ecuador exports Robusta beans to several regional markets, especially to Colombia. A volatile US dollar / Colombian peso exchange rate further allows for speculating in the market. Ecuador exported almost 64,000 Bags of Robusta to Colombia in CY 2008. Since consumers pay a premium price for Colombian coffee, its industries are willing to pay higher prices for Robusta beans than the Ecuadorian industry would pay locally. This is the core reason why Ecuador's Robusta beans are exported and also why the local soluble industry imports large quantities of the same variety (forecast 420,000 bags in MY 2010), which originate mainly in Vietnam, and which enter Ecuador under special import regime.



Soluble exports, forecast at 690,000 Bags for MY 2010, are expected to maintain their growth tendency despite lower production and prices of Robusta in Ecuador. In addition, the coffee industry has gained local and international markets for soluble coffee products, especially spray and freeze dried. Ecuadorian produced soluble coffee is reportedly one of the food products that Ecuadorians living abroad missed the most.

Policy:

A private institution, the National Coffee Council (COFENAC), establishes Ecuador's coffee policy. According to the law, COFENAC is the institution in charge of implementing the Law for the Coffee Sector.

This law provides a framework to promote and organize a modern coffee industry, to deal with the fluctuations of international coffee prices, and to provide loans through private banks at preferential interest rates for the rehabilitation, renovation, and maintenance of coffee plantations. The primary goal of the loans provided by COFENAC is not to increase planted and harvested areas, but to provide access to better coffee seedlings in order to improve quality and increase yields. In addition, COFENAC is implementing the first phase of a tree renovation project in several areas of Ecuador, which involves the planting of 200,000 new trees nationwide. Specifically, COFENAC, sponsored by Ecuador's Ministry of Agriculture, has presented a project to the National Secretariat of Planning and Development (SENPLADES) to renew 50,000 hectares of coffee (50% Arabica, 50% Robusta) in eight years. The goal of this project is to recover Ecuador's coffee production capacity of the 1980s.

COFENAC has requested a direct credit line from Ecuador's Agricultural Development Bank (BNF). The loans would finance costs of establishing a plantation, supplies and infrastructure. The loans are to be repaid in seven years with two-year grace period.

COFENAC has also led a project aimed at identifying markets for organic and gourmet specialty coffee and encouraging consumption and production of these specialty coffees. Production and certification of organic coffee and fair trade are activities also been promoted. Working together with Ecuador's Association of Coffee Exporters (ANECAFE) and

Ecuador's Exports and Investments Promotion Corporation (CORPEI), COFENAC is working to identify production areas with potential to produce distinct specialty coffees.

As for Ecuador's position regarding the U.S. participation at the International Coffee Organization (ICO), both producers and exporters believe that the return to the quota system will ease the situation of variable world prices and will encourage farmers to make new investments in the sector at the same time. However, the soluble coffee industry thinks that the return to the quota system will increase the prices of beans, making the industry less competitive in the international market.

Production, Supply and Demand Data Statistics:

Coffee, Green Ecuador	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Apr 2007			Market Year Begin: Apr 2008			Market Year Begin: Apr 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Planted	215	215	212	218	218	191			197
Area Harvested	185	185	178	187	187	168			174
Bearing Trees	170	170	164	171	171	154			160 (MILLION TREES)
Non-Bearing Trees	15	15	15	14	14	12			13 (MILLION TREES)
Total Tree Population	185	185	179	185	185	166			173 (MILLION TREES)
Beginning Stocks	14	14	14	12	12	8			8 (1000 60 KG BAGS)
Arabica Production	406	406	419	418	418	379			371 (1000 60 KG BAGS)
Robusta Production	274	274	283	285	285	258			253 (1000 60 KG BAGS)
Other Production	0	0	0	0	0	0			0 (1000 60 KG BAGS)
Total Production	680	680	702	703	703	637			624 (1000 60 KG BAGS)
Bean Imports	392	392	210	400	400	310			420 (1000 60 KG BAGS)
Roast & Ground Imports	1	1	0	1	1	2			3 (1000 60 KG BAGS)
Soluble Imports	75	75	64	77	77	77			0 (1000 60 KG BAGS)
Total Imports	468	468	274	478	478	389			423 (1000 60 KG BAGS)
Total Supply	1,162	1,162	990	1,193	1,193	1,034			1,055 (1000 60 KG BAGS)
Bean Exports	396	396	162	230	230	179			175 (1000 60 KG BAGS)
Rst-Grnd Exp.	1	1	2	1	1	2			3 (1000 60 KG BAGS)
Soluble Exports	600	600	670	762	762	682			690 (1000 60 KG BAGS)
Total Exports	997	997	834	993	993	863			868 (1000 60 KG BAGS)
Rst,Ground Dom. Consum	10	10	5	12	12	7			9 (1000 60 KG BAGS)
Soluble Dom. Cons.	143	143	143	150	150	156			168 (1000 60 KG BAGS)
Domestic Use	153	153	148	162	162	163			177 (1000 60 KG BAGS)
Ending Stocks	12	12	8	38	38	8			10 (1000 60 KG BAGS)
Total Distribution	1,162	1,162	990	1,193	1,193	1,034			1,055 (1000 60 KG BAGS)
Exportable Production	527	527	554	541	541	474			447 (1000 60 KG BAGS)

Export Trade Matrix

Country Ecuador
Coffee, Green, in 60Kg
Commodity Bags

Destination	2007	2008
Germany	211.484	207.136
Russia	114.757	161.877
Poland	130.787	159.257
Colombia	56.950	82.410
U.K.	67.983	46.477
U.S.	104.865	44.170
Other countries	128.088	91.192
Total	814.914	792.519

Prices in US\$ per uom (45.36 Kg)

Year	ARABICA <i>green</i>			ROBUSTA <i>husked beans</i>		
	2007	2008	% Change	2007	2008	% Change
Jan	100.0	120.0	20%	64.8	70.7	9%
Feb	100.0	120.0	20%	66.0	73.3	11%
Mar	100.0	150.0	50%	65.0	74.8	15%
Apr	100.0	150.0	50%	60.3	75.3	25%
May	115.0	140.0	22%	57.4	78.1	36%
Jun	120.0	140.0	17%	63.1	81.5	29%
Jul	115.0	145.0	26%	62.5	85.0	36%
Aug	115.0	150.0	30%	64.8	85.5	32%
Sep	120.0	160.0	33%	71.1	85.8	21%
Oct	120.0	150.0	25%	71.2	84.4	19%
Nov	120.0	190.0	58%	71.7	82.3	15%
Dec	120.0	150.0	25%	72.0	85.0	18%
Average	112.0	147.0	31%	65.8	80.4	22%